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Trade Liberalization Good for Caterpillar, Illinois and the World

By Jim Owens

A great proportion of the potential for Caterpillar's growth lies outside the United States where its machines and equipment are needed for economic development of nations seeking to feed clothe, and house their steadily growing populations at standards of living significantly above present levels. . . . These achievements would not [be] possible without reduction of the barriers to an increasingly free flow of trade among nations.

The above is a paragraph from Caterpillar's 1968 annual report. Nearly 40 years ago my predecessor, William Blackie, was compelled to speak out on the same issue I address today - the benefits of trade liberalization. In the '60s, the Kennedy Round of negotiations under the General Agreement on Tariffs and Trade (GATT) made news; today the debate over CAFTA, the proposed free-trade agreement with Central America and the Dominican Republic, grabs headlines. But the arguments in favor remain the same.

To begin with, open markets lead to more exports and better jobs.

Today, Congress allows about 80 percent of goods from the Dominican Republic, Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua to enter the U.S. duty-free. That's good for both American consumers (we pay lower prices) and the fragile democracies of Central America (trade promotes economic growth). But it doesn't make sense that Central American products can enter the U.S. nearly duty-free while many American exports to the region face significant hurdles. There should be parity.

For example, today, the tariff on a U.S.-produced Caterpillar off-highway truck entering Guatemala is 5 percent. In the Dominican Republic, the duty is 8 percent. And in Costa Rica, the tax is a whopping 14 percent. Simply put, these tariffs discourage economic growth and dissuade our customers from buying the products we make. That's not good for them, and it's certainly not good for us.

That will change when Congress passes CAFTA. The day the agreement goes into effect, most tariffs on U.S.-manufactured goods will be eliminated. What does that mean for Illinois? According to a study by the U.S. Chamber of Commerce, passage could add \$445 million to the state economy, \$97 million to workers' earnings and 2,400 new jobs over the next nine years. The CAFTA countries want our machinery and equipment, computers and electronics, corn and soybeans - and they'll only want more when Central America eliminates its tariffs on American-made products.

The economic benefits of free trade agreements are real.

Take recent passage of the U.S.-Chile agreement, which last year eliminated all Chilean tariffs on U.S.-made products. With Chile's market completely open, Caterpillar was able

to benefit fully from the country's mining boom, which increased demand for our products. Our U.S. exports to Chile nearly doubled, making Chile Caterpillar's fifth-largest U.S. export market.

U.S. companies will see similar, but even larger, benefits from CAFTA. And there are other benefits as well. With the trade agreement in place, CAFTA countries are less likely to embrace quick-fix, protectionist solutions as a way to weather economic uncertainties. That means foreign investors are more likely to put their money into the region. And more foreign investment will jump-start many long-delayed infrastructure projects. The region is already planning \$10 billion worth of new highways, hydroelectric dams, port improvements and energy grid upgrades.

And the benefits extend to American families as well. According to the Business Roundtable, lowering global trade barriers by even one-third would mean an additional \$2,500 annually for the typical American family of four. Another study by the Institute for International Economics found that the average American household has already benefited from a half century of trade liberalization to the tune of \$10,000 a year. Future liberalization could add another \$5,000 annually.

Finally, and most importantly, trade liberalization will help us build a more peaceful, prosperous world.

In 1974 Caterpillar issued one of corporate America's first worldwide codes of business conduct. In it we said that "we believe the international exchange of goods and ideas promotes human understanding and thus harmony and peace. . . . We aim to compete successfully in terms of design, manufacture and sale of our products, not in terms of artificial barriers and incentives."

As the leader of an American-based multinational company, I've seen first-hand that trade liberalization and engagement with the global economy can help attract investment. Trade not only helps alleviate global problems, ranging from hunger to poverty, but it also strengthens burgeoning democracies, like those taking hold in the Dominican-CAFTA region.

Trade liberalization has the potential to improve hundreds of millions of lives, here at home and around the world. It deserves our support, and passage of CAFTA is an important next step. Perhaps 40 years from now there will be universal understanding of the benefits of trade. Until that happens, though, Caterpillar will remain a vocal supporter whenever and wherever it can be achieved.

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